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S E C R E T SECTION 01 OF 02 BAGHDAD 001207

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EINV](#) [PINR](#) [IZ](#)

SUBJECT: BARHAM SALIH REQUESTS U.S. ASSISTANCE ON OIL STRATEGY

REF: BAGHDAD 1105

Classified By: Classified by Ambassador Chris Hill, reasons 1.4 (b,d)

¶1. (C) Summary: Iraqi Prime Minister Maliki wants to conclude direct contracts with international oil companies for six oil fields in hopes of accelerating output, Deputy Prime Minister Barham Salih told Ambassador Hill May 5. He said the PM would soon create a group to focus on this new strategy and requested the USG provide "informal" advice on how to proceed. End summary.

A Clearer Plan but not a Clear Plan

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¶2. (C) Following up on earlier discussions (reftel), DPM Salih told the Ambassador that the prime minister is concerned about the slow pace of progress on expanding oil production and has tasked him with pursuing "direct contracts" to accelerate entry of a select number of international oil companies (IOCs) to Iraq. The plan is to put six oil fields on this fast track for development. Salih said there is a "geo-political" element to the thinking as well. The GOI should chose firms for engagement in Iraq that represent the countries it wants to see engaged here for the long term. As possibilities, he suggested firms from France, Russia, U.S., UK, and Japan. (Note: He previously suggested a Chinese, not Japanese, firm in similar lists. End Note.) Salih said the PM had already met with several firms and had ideas which firms he would like to invite. (Comment: The Russian firm would likely be a revival of the Lukoil award under the old regime. We know Lukoil was discussed while the PM visited Moscow and the PM met with Total in France. Salih didn't name the fields contemplated for these deals. Some are likely already in the first and second bid rounds, which may have an adverse effect on them. End Comment)

Need for Speed

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¶3. (C) The DPM said the GOI knows that there needs to be competition in these awards, both to ensure that GOI gets the best deal, and to give the appearance of transparency. His initial thinking is that 10-11 firms would be short-listed to compete. Salih said all deals would need Parliamentary approval, and he expected no problems with this, so long as the deals were structured properly and clearly in Iraq's interest. He noted that the global economic slump and drop in Iraqi revenue had changed the debate and there was increasing traction within GOI for both reform and international deals. (Comment: Salih didn't explain why there has been no traction on the structural reforms that were proposed at the February oil symposium. End Comment)

Oil Minister Shahristani: Too Little Too Late

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¶4. (C) Salih noted Oil Minister Shahristani's "stubborn" approach, terming it classic bureaucratic opposition to an

outside idea. He added that the MoO bid rounds will continue, but PM Maliki believes these are "too little, too late." The DPM emphasized his initiative cannot turn into an extended process like the bid rounds. He said several times that he did not want to put the USG in the middle of a dispute between the MoO and "others." (Comment: UK colleagues report that Shahristani was the busiest Iraqi minister at last week's London investment conference, meeting constantly with a stream of interested oil firms. Shahristani's public comments in recent months have stressed the need to accelerate IOC involvement in Iraq. It is not clear that Shahristani is as much of an obstacle as Salih suggests, although here is no question about his being a strong proponent of the bid round process. End Comment) Qstrong proponent of the bid round process. End Comment)

#### Salih Looking for Direction

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¶ 15. (C) Salih asked for USG help. After being encouraged to hire international oil consultants, Salih responded that they certainly will hire such a firm, but not yet. What the GOI needs first are more "informal" suggestions about how to structure the deals; they need to know if such a thing has been tried in other countries in similar situations; how to inject the minimal level of competition into the process; and what parameters they should give to the consulting firm that they eventually hire. We repeated that they would be best served by hiring this expertise. Salih complained that the process of getting government approval for hiring a consultant could be lengthy. Ambassador Hill promised to review Salih's requests and provide quick feedback; Salih asked that we deal only with his senior advisor, Mohammed

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Qaradagli, on this issue.

#### Other issues

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¶ 16. (C) DPM Salih raised several other topics during this first meeting and dinner with the Ambassador, including:

-- National elections: Salih said he thought they would occur no later than January 2010. In his view, an open list system is inevitable since voters liked the system when it was used in the January provincial elections. However, the KRG elections in late July will use a closed list system as it is required to maintain the PUK-KDP agreement on power sharing.

-- Referendum on Security Agreement: Salih said he is "confused" on the topic. While he sees no effort underway to plan for such a vote in July, he does not see how the PM can avoid holding the vote, since failure to do so would leave him open to political criticism.

-- Arab-Kurd tension: Salih, who had just returned from accompanying the PM to London and Paris, said that Maliki had asked him to carry some ideas back to the KRG that would help to lower tensions. He did not disclose the nature of the proposals nor whom he would present them to.

-- Sadr visit to Ankara: The PM was surprised by the visit and angry that the Turkish government had not provided advance notice. He intends to send a formal complaint to PM Erdogan.

-- London investment conference: The PM was impressed with the level of interest in Iraq.

-- Dialogue on Economic Cooperation: Salih said he thought the proposed June 22 date for a meeting in Washington would work, but was not definitive (embassy will pursue with Qaradagli on the coming days).

Comment and action request

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¶7. (S) PM Maliki has spoken before about the desire to move quickly on direct contracts with oil majors, and has met with at least Chevron and Total in recent months. There is little reason to doubt that the PM is driving this initiative, although we believe it is important to discuss this directly with him soon. Salih has been working on oil issues for months and progress has been slow, except for the February symposium that produced what are generally seen as a strong set of recommendations that have gone nowhere since. Salih's focus is now on the July elections in the Kurdistan Region. While we will continue discussions with his office, we will also encourage the PM to put in place a coordination structure that has a better chance of achieving progress in this critical area, and which includes the Oil Ministry. We request Washington views on a response to the Salih request.

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